

GRAYLING HOUSING COMMISSION
GRAYLING, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name GRAYLING HOUSING COMMISSION	County GRAYLING
Fiscal Year End MARCH 31, 2006	Opinion Date DECEMBER 7, 2006	Date Audit Report Submitted to State DECEMBER 24, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

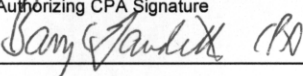
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	REPORT ON COMPLIANCE AND INTERNAL CONTROL	
Certified Public Accountant (Firm Name) BARRY E. GAUDETTE, CPA, PC		Telephone Number 231-946-8930	
Street Address 1107 E. EIGHTH STREET		City TRAVERSE CITY	State MI
		Zip 49686	
Authorizing CPA Signature 	Printed Name BARRY E. GAUDETTE, CPA		License Number 11050

GRAYLING HOUSING COMMISSION
TABLE OF CONTENTS
March 31, 2006

	<u>Page</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1-2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)</u>	3-6
<u>FINANCIAL STATEMENTS</u>	
Basic Financial Statements:	
Fund Financial Statements:	
Proprietary Fund:	
Statement of Net Assets	7-8
Statement of Activities	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-22
 <u>SUPPLEMENTAL INFORMATION</u>	
Fund Financial Statements:	
Proprietary Fund:	
Combining Statement of Net Assets	23-24
Combining Statement of Activities	25
Combining Statement of Cash Flows	26-27
 Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	 28
 Financial Data Schedule	 29-32
 REPORTS ON INTERNAL CONTROL AND COMPLIANCE	 33-36
 Schedule of Findings and Questioned Costs	 37-38
 Summary Schedule of Prior Audit Findings	 39
 Adjusting Journal Entries	 40

Independent Auditor's Report

Board of Commissioners
Grayling Housing Commission
Grayling, Michigan

I have audited the accompanying financial statements of the business-type activities of the Grayling Housing Commission, Michigan, a component unit of the City of Grayling, as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Grayling Housing Commission, Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grayling Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated December 7, 2006, on my consideration of Grayling Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Grayling Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Grayling Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barry E. Standish, CPA, PC

December 7, 2006

GRAYLING HOUSING COMMISSION
GRAYLING, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
March 31, 2006
=====

The Grayling Housing Commission, created in 1959, by the City of Grayling provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended March 31, 2006. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Grayling Housing Commission consists of four programs. The first is owned housing, consisting of 88 units of public housing, the second is the capital funding program, the third is the housing choice voucher program consisting of 130 qualifying low-income residents for rental housing, and the Housing Commission also had a Homeownership Program that ended July 31, 2005.

Grayling Housing Commission had total revenues of \$1,087,431 that includes \$229,004 in rental payments and \$806,212 in federal assistance. Total revenues decreased by \$40,927 from the prior year, in part, because of the Homeownership federal assistance decreasing by \$196,106 and the Housing Choice Voucher federal assistance decreasing by \$42,760 from the prior year. Total operating expenses were \$1,060,970, that includes \$293,061 in administrative expenses, \$98,466 in utilities, \$158,926 in ordinary maintenance and operation, \$375,336 in housing assistance payments, and \$78,763 in depreciation expense. The operating expenses decreased by \$143,569, in part, because of decreased administrative expenses of \$208,022, in the Homeownership program, compared to the prior year.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$1,368,612. The Housing Commission's total net assets increased by \$26,461 from the prior year. The increase can be attributed, in part, to the purchase of capital assets of \$239,950.

Total assets of the Housing Commission were \$1,530,794, of which \$170,397 consisted of current assets and \$89,577 of current liabilities. There was a net increase in total assets of \$21,619 from the prior year, for the same reasons as described in the preceding paragraph.

Financial Highlights (continued)

2006 Financial Audit Economic Analysis:

1. In response to an analysis of the Housing Commission's overall financial position and results of operations to assess whether financial position has improved or deteriorated during the year, including reasons for significant changes from the prior year and important economic factors that significantly affected operating results.

Answer: The Grayling Housing Commission's financial position has not changed significantly from previous years. The primary change in our financial position in the near term will be use of Capital Fund money for physical renovations of its properties in the coming year. The major change will be that we will use 30% of Capital Funds to use as a payment on a loan. We may use Capital funds to rehab our units based on our physical needs assessment. We have not replaced the part-time maintenance position that was opened last year, filled and promptly vacated. Utilities were an unexpected problem, but have stabilized. The Housing Commission will continue to constrain unnecessary expenditures.

2. A description of significant capital assets and long-term debt activity, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

Answer: During the fiscal year ending March 31, 2006, the Housing Commission spent capital fund monies on repairing roofs and doors. The Grayling Housing Commission has two Certificates of Deposited totaling \$50,693.00, and we have no plans to use that CD in the next fiscal year. At this time the Grayling Housing Commission has neither short-term nor long-term debt.

3. A description of currently known facts decisions or conditions that are expected to have a significant effect on financial position or results of operations.

Answer: As stated previously, the Housing Commission will use Capital Fund's money to continue renovations at the Housing Commission. This will require the use of approximate 30% of Capital Funds. Reserves should remain stable in Fiscal year 2007 and may show an increase. The company wide gains for fiscal year 2007 should be \$26,461.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended March 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Current assets	\$ 170,397	\$ 250,233	\$ (79,836)
Property and equipment	<u>1,360,397</u>	<u>1,258,942</u>	<u>101,455</u>
Total assets	<u>\$1,530,794</u>	<u>\$1,509,175</u>	<u>\$ 21,619</u>
Current liabilities	\$ 89,577	\$ 102,530	\$ (12,953)
Noncurrent liabilities	<u>72,605</u>	<u>64,494</u>	<u>8,111</u>
Total liabilities	<u>162,182</u>	<u>167,024</u>	<u>(4,842)</u>
Net assets:			
Invested in capital assets	1,360,397	1,258,942	101,455
Unrestricted	<u>8,215</u>	<u>83,209</u>	<u>(74,994)</u>
Total net assets	<u>1,368,612</u>	<u>1,342,151</u>	<u>26,461</u>
Total liabilities and net assets	<u>\$1,530,794</u>	<u>\$1,509,175</u>	<u>\$ 21,619</u>

Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended March 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 229,004	\$ 221,716	\$ 7,288
Nondwelling rent	<u>186</u>	<u>50</u>	<u>136</u>
Total operating revenues	<u>229,190</u>	<u>221,766</u>	<u>7,424</u>
Operating expenses:			
Administration	293,061	460,229	(167,168)
Tenant services		1,909	(1,909)
Utilities	98,466	75,807	22,659
Ordinary maintenance and operation	158,926	147,142	11,784
General expenses	56,418	41,455	14,963
Extraordinary maintenance		1,587	(1,587)
Casualty losses		(900)	900
Housing assistance payments	375,336	395,268	(19,932)
Depreciation	<u>78,763</u>	<u>82,042</u>	<u>(3,279)</u>
Total operating expenses	<u>1,060,970</u>	<u>1,204,539</u>	<u>(143,569)</u>
Non-operating revenue:			
Interest income	2,671	688	1,983
Operating grants	632,464	813,299	(180,835)
Capital grants	173,748	59,732	114,016
Other income	<u>49,358</u>	<u>32,873</u>	<u>16,485</u>
Total nonoperating revenue	<u>858,241</u>	<u>906,592</u>	<u>(48,351)</u>
Change in Net Assets	<u>\$ 26,461</u>	<u>\$ (76,181)</u>	<u>\$ 102,642</u>

FINANCIAL STATEMENTS

GRAYLING HOUSING COMMISSION
STATEMENT OF NET ASSETS
March 31, 2006
=====

ASSETS

Current Assets:

Cash	\$ 93,221
Accounts receivable-tenants	7,027
Investments-unrestricted	50,693
Prepaid expenses	16,981
Inventories	<u>2,475</u>

Total Current Assets	<u>170,397</u>
----------------------	----------------

Property, Plant, and Equipment:

Land	88,873
Buildings	2,359,405
Equipment	184,144
Building improvements	<u>238,224</u>

	2,870,646
Less: accumulated depreciation	<u>(1,510,249)</u>

Net Property, Plant, and Equipment	<u>1,360,397</u>
------------------------------------	------------------

Total Assets	<u><u>\$ 1,530,794</u></u>
--------------	----------------------------

See notes to financial statements

GRAYLING HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
March 31, 2006
=====

LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 62,276
Tenant security deposit liability	15,698
Accrued expenses	8,067
Deferred revenues	<u>3,536</u>

Total Current Liabilities 89,577

Noncurrent Liabilities:

Accrued compensated absences	<u>72,605</u>
------------------------------	---------------

Total Liabilities 162,182

Net Assets:

Invested in capital assets	1,360,397
Unrestricted net assets	<u>8,215</u>

Total Net Assets 1,368,612

Total Liabilities and Net Assets \$ 1,530,794

See notes to financial statements

GRAYLING HOUSING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended March 31, 2006
=====

OPERATING REVENUES:

Dwelling rent	\$ 229,004
Non-dwelling rent	<u>186</u>
Total operating revenues	<u>229,190</u>

OPERATING EXPENSES:

Administration	293,061
Utilities	98,466
Ordinary maintenance and operation	158,926
General expenses	56,418
Housing assistance payments	375,336
Depreciation	<u>78,763</u>
Total operating expenses	<u>1,060,970</u>

Operating income(loss)	<u>(831,780)</u>
------------------------	-------------------

NONOPERATING REVENUES:

Investment interest income	2,671
Other income	49,358
Capital grants	173,748
Operating grants	<u>632,464</u>

Total nonoperating revenues	<u>858,241</u>
-----------------------------	----------------

Change in net assets	26,461
----------------------	--------

Net assets, beginning	1,346,248
-----------------------	-----------

Prior period adjustments, equity transfers and correction of errors	<u>(4,097)</u>
--	-----------------

Net assets, ending	<u><u>\$ 1,368,612</u></u>
--------------------	----------------------------

See notes to financial statements

GRAYLING HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended March 31, 2006

=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 225,784
Cash payments to other suppliers of goods and services	(682,934)
Cash payments to employees for services	(282,596)
Cash payments for in lieu of taxes	<u>(15,086)</u>
Net cash (used) by operating activities	<u>(754,832)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

Tenant security deposits	(1,595)
Operating grants	656,159
Other revenue	<u>40,517</u>
Net cash provided by noncapital financing activities	<u>695,081</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES:**

Capital grants	173,748
Payments for capital acquisitions	<u>(180,218)</u>
Net cash (used) by and related financing activities	<u>(6,470)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments increased	(2,342)
Receipts of interest and dividends	<u>2,671</u>
Net cash provided by investing activities	<u>329</u>

Net increase(decrease) in cash	(65,892)
--------------------------------	-----------

Cash, beginning	<u>159,113</u>
-----------------	----------------

Cash, ending	<u>\$ 93,221</u>
--------------	------------------

GRAYLING HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2006
=====

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENT OF CASH FLOWS TO THE BALANCE
SHEET:**

Cash	\$ 93,221
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u><u>\$ 93,221</u></u>

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$(831,780)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	78,763
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(4,665)
Prepaid expenses	2,000
Increase (decrease) in liabilities:	
Bank overdraft	(36,237)
Accounts payable	32,580
Accrued compensated absences	9,012
Accrued payments in lieu of taxes	(1,231)
Accrued liabilities-other	(4,533)
Deferred revenues	<u>1,259</u>
Net cash (used) by operating activities	<u><u>\$(754,832)</u></u>

See notes to financial statements

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2006
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Grayling Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Grayling Housing Commission is a component unit of the City of Grayling, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Grayling on June 23, 1959, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Grayling Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3008, the Housing Commission constructed, maintains and operates 88 units of subsidized housing in the City of Grayling, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 130 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

The Housing Commission also has a Homeownership Program that is classified as the Resident Opportunity and Supportive Services Program. This program ended July 31, 2005.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The

fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City of Grayling has elected to

apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Inventories

Inventory is priced using the average cost method.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Land improvements	15 years
Buildings	40 years
Equipment - portable	5 - 7 years
Furnishings	7 years
Office equipment	7 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave. Vacation days earned may be accumulated to the maximum of twenty-four days. Employees with ten years consecutive service may accumulate thirty-six days maximum.

Any employee who terminated prior to completing twelve months of service shall receive no vacation pay. Any employee, who has served twelve months or more, will upon termination, receive payment for any unused vacation at his or her regular hourly rate at the time employment ceases.

- * Sick pay. Unused sick leave may be accumulated to a total of not more than 816 hours. Annual carry over shall not exceed 720 hours. Employees will be compensated at a rate of \$4.00 per hour annually for every hour unused in excess

of 720 hours. Upon termination the sick leave accumulated up to 720 hours will not be paid.

- * Personal leave. Each employee shall receive sixteen hours of paid personal time on July 1 of each year. Personal time must be used by the end of the fiscal year or be forfeited.

The amount of accumulated benefits at March 31, 2006, was \$72,605, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent and Housing Choice Voucher Programs.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$92,996 and the bank balance was \$94,447 was covered by federal depository insurance. There was also petty cash funds of \$100 and \$75, and a change fund of \$50, respectively.

Investments

The Housing Commission had the following investments in certificates of deposit as of March 31, 2006:

Citizens Bank (CD #2401064460)	\$ 14,841
Citizens Bank (CD #2401008335)	35,852
	<u>\$ 50,693</u>

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary

and trust funds under the jurisdiction of the United States and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Carrying amount of deposits	\$ 92,996
Petty cash	175
Change fund	50
Investments	50,693
Total	<u>\$ 143,914</u>
Cash and cash equivalents:	
Enterprise activities	\$ 145,365
Enterprise activities - checks written in excess of deposits	(1,451)
Total	<u>\$ 143,914</u>

NOTE 3: RECEIVABLES AND PAYABLES**Tenant Accounts Receivable**

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2006, the receivables were \$7,027 with \$-0- estimated as uncollectible. Bad debt expense was \$-0-.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Housing Choice Voucher Program	\$ <u>2,258</u>	Low Rent Program	\$ <u>2,258</u>

The capital fund program transferred \$65,486 to the Low Rent Program during the fiscal year ended March 31, 2006.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	<u>Balance 03/31/05</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance 03/31/06</u>
Low Rent Program			
Land	\$ 88,873	\$	\$ 88,873
Buildings	2,359,405		2,359,405
Furniture, equip. & machinery - dwellings	41,860	1,605	43,465
Furniture, equip. & machinery - administration	<u>117,880</u>	<u>121</u>	<u>118,001</u>
	2,608,018	<u>\$ 1,726</u>	<u>2,609,744</u>
Less accumulated depreciation	<u>(1,408,808)</u>	<u>\$ (78,763)</u>	<u>(1,487,571)</u>
Total	<u>\$1,199,210</u>		<u>\$1,122,173</u>

	<u>Balance</u> <u>03/31/05</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>03/31/06</u>
Capital Fund Program			
Building improvements	\$ 59,732	\$ (59,732)	\$
Construction in progress		238,224	238,224
	<u>\$ 59,732</u>	<u>\$ 238,224</u>	<u>\$ (59,732)</u>
			<u>\$ 238,224</u>
Housing Choice Voucher Program			
Furniture, equip. and machinery-administration	\$ 22,678	\$	\$ 22,678
	22,678	\$	22,678
Less accumulated depreciation	(22,678)	\$	(22,678)
Total	<u>\$</u>		<u>\$</u>
Resident Opportunity and Supportive Services Program			
Furniture, equip. & machinery - administration	\$ 1,550	\$ (1,550)	\$
	1,550	\$ (1,550)	
Less accumulated depreciation	(1,550)	\$ 1,550	
Total	<u>\$</u>		<u>\$</u>
Combined Totals			<u>\$1,360,397</u>

NOTE 5: CONTRIBUTED CAPITAL

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended March 31, 2006, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	\$ 1,258,942
Investment in fixed assets, net of depreciation paid for from operations net of depreciation.	101,455
Balance, ending	<u>\$ 1,360,397</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations.

NOTE 6: OTHER INFORMATION

A. Pension Plan

Each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after 10 years of service and normal retirement age at 60 years of age. At December 31, 2004, the date of the last completed actuarial evaluation, the Housing Commission's present value of accrued benefits for retirement benefits was \$216,144. The valuation of assets to meet this obligation was \$405,520, therefore the overfunded amount is \$189,376. The Housing Commission computed employer contributions as a percentage of payroll of 8.03%. The Housing Commission made total employer retirement contributions of \$1,372 on covered wages of \$205,051. There are three (5) active members, no vested former member, and no retirees and beneficiaries.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Correction of prior years discretionary funds \$ (8,841)

Public Housing Capital Fund Program

Correction of prior years discretionary funds \$ 4,744

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes four separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>	<u>Resident Opportunity and Supportive Services</u>
Condensed Statement of Net Assets				
Current assets	\$ 91,579	\$	\$ 81,076	\$
Property and equip.	<u>1,122,173</u>	<u>238,224</u>		
Total assets	<u>\$ 1,213,752</u>	<u>\$238,224</u>	<u>\$ 81,076</u>	<u>\$</u>
Current liabilities	\$ 83,386	\$	\$ 8,449	\$
Noncurrent liab.	<u>72,605</u>			
Total liabilities	<u>155,991</u>		<u>8,449</u>	
Net assets:				
Invested in capital assets	1,122,173	238,224		
Unrestricted net assets	(64,412)		72,627	
Total net assets	<u>1,057,761</u>	<u>238,224</u>	<u>72,627</u>	
Total liabilities and net assets	<u>\$ 1,213,752</u>	<u>\$238,224</u>	<u>\$ 81,076</u>	<u>\$</u>

	Low Rent Program	Capital Fund Program	Housing Choice Vouchers	Resident Opportunity and Supportive Services
Condensed Statement of Activities				
Dwelling and nondwelling rents	\$ 229,190	\$	\$	\$
Depreciation	(78,763)			
Other operating expenses	(494,621)		(474,383)	(13,203)
Operating(loss)	(344,194)		(474,383)	(13,203)
Nonoperating revenues:				
Investment earnings	2,671			
Other income	49,358			
Operating grants	121,473	65,486	432,302	13,203
Capital grants		173,748		
Operating transfers	65,486	(65,486)		
Change in net assets	(105,206)	173,748	(42,081)	
Beginning net assets	1,171,808	59,732	114,708	
Prior period adjustments	(8,841)	4,744		
Ending net assets	<u>\$ 1,057,761</u>	<u>\$238,224</u>	<u>\$ 72,627</u>	<u>\$</u>

Condensed Statement of Cash Flows				
Net cash provided (used) by:				
Operating				
activities	\$ (271,162)	\$	\$ (470,467)	\$ (13,203)
Noncapital				
financing				
activities	286,392	4,744	447,999	(44,054)
Capital and related				
financing				
activities	(1,726)	(4,744)		
Investing				
activities	329			
Net increase (decrease)	13,833		(22,468)	(57,257)
Beginning cash and cash equivalents	570		101,286	57,257
Ending cash and cash equivalents	<u>\$ 14,403</u>	<u>\$</u>	<u>\$ 78,818</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

GRAYLING HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 March 31, 2006
 =====

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash	\$ 14,403	\$
Accounts receivable-tenant	7,027	
Investments-unrestricted	50,693	
Prepaid expenses	16,981	
Inventories	2,475	
Due from other programs		
Total current assets	<u>91,579</u>	
Property, plant, and equipment:		
Land	88,873	
Buildings	2,359,405	
Equipment	161,466	
Construction in progress		<u>238,224</u>
	<u>2,609,744</u>	238,224
Less accumulated depreciation	<u>(1,487,571)</u>	
Net property, plant and equipment	<u>1,122,173</u>	<u>238,224</u>
Total Assets	<u><u>\$1,213,752</u></u>	<u><u>\$ 238,224</u></u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 78,818	\$	\$ 93,221
		7,027
		50,693
		16,981
		2,475
<u>2,258</u>	<u></u>	<u>2,258</u>
<u>81,076</u>	<u></u>	<u>172,655</u>
		88,873
		2,359,405
22,678		184,144
<u>22,678</u>	<u></u>	<u>238,224</u>
(22,678)	<u></u>	2,870,646
		(1,510,249)
<u></u>	<u></u>	<u>1,360,397</u>
<u>\$ 81,076</u>	<u>\$</u>	<u>\$ 1,533,052</u>

GRAYLING HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 March 31, 2006

=====

C-3008	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

LIABILITIES and NET ASSETS

Current liabilities:

Accounts payable	\$ 53,827	\$
Tenant security deposit liability	15,698	
Accrued expenses	8,067	
Deferred revenues	3,536	
Due to other programs	<u>2,258</u>	
Total current liabilities	83,386	

Noncurrent liabilities:

Accrued compensated absences	<u>72,605</u>	
Total liabilities	<u>155,991</u>	

Net Assets:

Invested in capital assets	1,122,173	238,224
Unrestricted net assets	<u>(64,412)</u>	
Total net assets	<u>1,057,761</u>	<u>238,224</u>
Total Liabilities and Net Assets	<u>\$1,213,752</u>	<u>\$ 238,224</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 8,449	\$	\$ 62,276
		15,698
		8,067
		3,536
		<u>2,258</u>
8,449		91,835
		<u>72,605</u>
<u>8,449</u>		<u>164,440</u>
<u>72,627</u>		1,360,397
		<u>8,215</u>
<u>72,627</u>		<u>1,368,612</u>
<u>\$ 81,076</u>	<u>\$</u>	<u>\$ 1,533,052</u>

GRAYLING HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended March 31, 2006
 =====

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 229,004	\$
Nondwelling rent	<u>186</u>	<u></u>
Total operating revenues	<u>229,190</u>	<u></u>
OPERATING EXPENSES:		
Administration	180,811	
Utilities	98,466	
Ordinary maintenance and operation	158,926	
General expenses	56,418	
Housing assistance payments		
Depreciation	<u>78,763</u>	<u></u>
Total operating expenses	<u>573,384</u>	<u></u>
Operating income(loss)	<u>(344,194)</u>	<u></u>
NONOPERATING REVENUES:		
Operating transfers in (out)	65,486	(65,486)
Investment interest income	2,671	
Other income	49,358	
Capital grants		173,748
Operating grants	<u>121,473</u>	<u>65,486</u>
Total nonoperating revenues	<u>238,988</u>	<u>173,748</u>
Change in net assets	(105,206)	173,748
Net assets, beginning	1,171,808	59,732
Prior period adjustments, equity transfers and correction of errors	<u>(8,841)</u>	<u>4,744</u>
Net assets, ending	<u>\$1,057,761</u>	<u>\$238,224</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$	\$	\$ 229,004
		<u>186</u>
		<u>229,190</u>
99,047	13,203	293,061
		98,466
		158,926
		56,418
375,336		375,336
		<u>78,763</u>
<u>474,383</u>	<u>13,203</u>	<u>1,060,970</u>
(474,383)	(13,203)	(831,780)
		2,671
		49,358
		173,748
<u>432,302</u>	<u>13,203</u>	<u>632,464</u>
<u>432,302</u>	<u>13,203</u>	<u>858,241</u>
(42,081)		26,461
114,708		1,346,248
		<u>(4,097)</u>
<u>\$ 72,627</u>	<u>\$</u>	<u>\$ 1,368,612</u>

GRAYLING HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended March 31, 2006
 =====

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 225,784	\$
Cash payments to other suppliers of goods and services	(287,962)	
Cash payments to employees for services	(193,898)	
Cash payments for in lieu of taxes	<u>(15,086)</u>	
Net cash (used) by operating activities	<u>(271,162)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	(1,595)	
Due from/to other funds	60,511	
Operating transfers in (out)	65,486	(65,486)
Operating grants	121,473	70,230
Other revenue	<u>40,517</u>	
Net cash provided by noncapital financing activities	<u>286,392</u>	<u>4,744</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		173,748
Payments for capital acquisitions	<u>(1,726)</u>	<u>(178,492)</u>
Net cash (used) by capital and related financing activities	<u>(1,726)</u>	<u>(4,744)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments increased	(2,342)	
Receipts of interest and dividends	<u>2,671</u>	
Net cash provided by investing activities	<u>329</u>	
Net increase(decrease) in cash	13,833	
Cash, beginning	<u>570</u>	
Cash, ending	<u>\$ 14,403</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Resident Opportunity and Supportive Services 14.870	Totals
\$	\$	\$ 225,784
(381,769)	(13,203)	(682,934)
(88,698)		(282,596)
		(15,086)
(470,467)	(13,203)	(754,832)
	(60,511)	(1,595)
447,999	16,457	656,159
		40,517
447,999	(44,054)	695,081
		173,748
		(180,218)
		(6,470)
		(2,342)
		2,671
		329
(22,468)	(57,257)	(65,892)
101,286	57,257	159,113
\$ 78,818	\$	\$ 93,221

GRAYLING HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2006
=====

C-3008	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:**

Cash	\$ 14,403	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 14,403</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$ (344,194)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	78,763	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(4,665)	
Prepaid expenses	2,000	
Increase (decrease) in liabilities:		
Bank overdraft	(36,237)	
Accounts payable	24,131	
Accrued compensated absences	9,012	
Accrued payments in lieu of taxes	(1,231)	
Accrued liabilities-other		
Deferred revenues	<u>1,259</u>	<u> </u>
Net cash (used) by operating activities	<u>\$ (271,162)</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 78,818	\$	\$ 93,221
<u>\$ 78,818</u>	<u>\$</u>	<u>\$ 93,221</u>
\$ (474,383)	\$ (13,203)	\$ (831,780)
		78,763
		(4,665)
		2,000
8,449		(36,237)
		32,580
		9,012
(4,533)		(1,231)
		(4,533)
<u></u>	<u></u>	<u>1,259</u>
<u>\$ (470,467)</u>	<u>\$ (13,203)</u>	<u>\$ (754,832)</u>

GRAYLING HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 121,473
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	239,234
	<u>Low Income Public Housing Major - Direct Program</u>		
2006	Housing Choice Vouchers	14.871	423,377
	<u>Low Income Public Housing Nonmajor - Direct Program</u>		
2006	Resident Opportunity and Supportive Services	14.870	<u>13,203</u>
	Total		<u>\$ 797,287</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

GRAYLING HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended March 31, 2006

=====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 14,403	\$
100	Total cash	<u>14,403</u>	
	Receivables:		
126	A/R-tenants-dwelling rents	<u>7,027</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>7,027</u>	
	Current Investments:		
131	Investments-unrestricted	<u>50,693</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	16,981	
143	Inventories	2,475	
144	Interprogram due from		
	Total other current assets	<u>19,456</u>	
150	Total current assets	<u>91,579</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	88,873	
162	Buildings	2,359,405	
163	Furn, equip & mach-dwellings	43,465	
164	Furn, equip & mach-admin.	118,001	
166	Accumulated depreciation	(1,487,571)	
167	Construction in progress		<u>238,224</u>
160	Total fixed assets, net of accumulated depreciation	<u>1,122,173</u>	<u>238,224</u>
180	Total noncurrent assets	<u>1,122,173</u>	<u>238,224</u>
190	Total Assets	<u>\$ 1,213,752</u>	<u>\$238,224</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 78,818	\$	\$ 93,221
<u>78,818</u>		<u>93,221</u>
		<u>7,027</u>
		<u>7,027</u>
		<u>50,693</u>
		16,981
		2,475
<u>2,258</u>		<u>2,258</u>
<u>2,258</u>		<u>21,714</u>
<u>81,076</u>		<u>172,655</u>
		88,873
		2,359,405
		43,465
22,678		140,679
(22,678)		(1,510,249)
		<u>238,224</u>
		<u>1,360,397</u>
		<u>1,360,397</u>
<u>\$ 81,076</u>	<u>\$</u>	<u>\$ 1,533,052</u>

GRAYLING HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2006
=====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 39,972	\$
322	Accrued compensated absences	8,067	
333	Accounts payable-other government	13,855	
341	Tenant security deposits	15,698	
342	Deferred revenues	3,536	
347	Interprogram due to	<u>2,258</u>	
310	Total current liabilities	<u>83,386</u>	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>72,605</u>	
350	Total noncurrent liabilities	<u>72,605</u>	
300	Total liabilities	<u>155,991</u>	
	Net Assets:		
508.1	Invested in capital assets	<u>1,122,173</u>	<u>238,224</u>
508	Total invested in capital assets	1,122,173	238,224
512.1	Unrestricted net assets	<u>(64,412)</u>	
513	Total Net Assets	<u>1,057,761</u>	<u>238,224</u>
600	Total Liabilities and Net Assets	<u>\$ 1,213,752</u>	<u>\$238,224</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Total</u>
\$ 8,449	\$	\$ 48,421
		8,067
		13,855
		15,698
		3,536
		<u>2,258</u>
<u>8,449</u>		<u>91,835</u>
		<u>72,605</u>
		<u>72,605</u>
<u>8,449</u>		<u>164,440</u>
		<u>1,360,397</u>
		1,360,397
<u>72,627</u>		<u>8,215</u>
<u>72,627</u>		<u>1,368,612</u>
<u>\$ 81,076</u>	<u>\$</u>	<u>\$ 1,533,052</u>

GRAYLING HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended March 31, 2006
=====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 229,004	\$
704	Tenant revenue-other	<u>186</u>	<u></u>
705	Total tenant revenue	229,190	
706	HUD PHA grants	121,473	65,486
706.1	Capital grants		173,748
711	Investment income-unrestricted	2,671	
715	Other revenue	<u>49,358</u>	<u></u>
700	Total revenue	<u>402,692</u>	<u>239,234</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	80,180	
912	Auditing fees	4,500	
914	Compensated absences	9,012	
915	Employee benefit contributions-adm.	50,322	
916	Other operating-administrative	36,797	
	Utilities:		
931	Water	18,751	
932	Electricity	26,240	
933	Gas	53,475	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	55,831	
942	Ordinary maint & oper-mat'ls & other	29,602	
943	Ordinary maint & oper-contract costs	45,613	
945	Employee benefit contributions	27,880	
	General expenses:		
961	Insurance premiums	42,563	
963	Payments in lieu of taxes	<u>13,855</u>	<u></u>
969	Total operating expenses	<u>494,621</u>	<u></u>
970	Excess operating revenue over operating expenses	<u>(91,929)</u>	<u>239,234</u>

Housing Choice Vouchers 14.871	Resident Opportunity and Supportive Services 14.870	Total
\$	\$	\$
		229,004
		186
		229,190
432,302	13,203	632,464
		173,748
		2,671
		49,358
432,302	13,203	1,087,431
84,350		164,530
		4,500
		9,012
4,348		54,670
10,349	13,203	60,349
		18,751
		26,240
		53,475
		55,831
		29,602
		45,613
		27,880
		42,563
		13,855
99,047	13,203	606,871
333,255		480,560

GRAYLING HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2006
 =====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
973	Housing assistance payments		
974	Depreciation expense	<u>78,763</u>	<u> </u>
	Total other expenses	<u>78,763</u>	<u> </u>
900	Total expenses	<u>573,384</u>	<u> </u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(170,692)	239,234
	Other Financing Sources(Uses):		
1001	Operating transfers in (out)	<u>65,486</u>	<u>(65,486)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(105,206)	173,748
1103	Beginning Net Assets	1,171,808	59,732
1104	Prior period adjustments, equity transfers and correction of errors	<u>(8,841)</u>	<u>4,744</u>
	Ending Net Assets	<u>\$ 1,057,761</u>	<u>\$238,224</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
375,336		375,336
		<u>78,763</u>
<u>375,336</u>		<u>454,099</u>
<u>474,383</u>	<u>13,203</u>	<u>1,060,970</u>
(42,081)		26,461
(42,081)		26,461
114,708		1,346,248
		(4,097)
<u>\$ 72,627</u>	<u>\$</u>	<u>\$ 1,368,612</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Grayling Housing Commission
Grayling, Michigan

I have audited the financial statements of the business-type activities of the Grayling Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated December 7, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Grayling Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated December 7, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Samy E. Taudette, CPA, PC

December 7, 2006

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Grayling Housing Commission
Grayling, Michigan

Compliance

I have audited the compliance of the Grayling Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Grayling Housing Commission
Page Two

Compliance (continued)

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2006.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated December 7, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sam E. Zandberg, CPA, PC

December 7, 2006

GRAYLING HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 March 31, 2006
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 121,473	No	O	N/A	N/A
14.872	Capital Fund Program	239,234	No	O	N/A	N/A
14.871	Housing Choice Vouchers	423,377	Yes	O	N/A	N/A
14.870	Resident Opportunity and Supportive Services	<u>13,203</u>	No	O	N/A	N/A
Total		<u>\$ 797,287</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

GRAYLING HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2006

=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

GRAYLING HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
March 31, 2006

=====

NONE

GRAYLING HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
MARCH 31, 2006

=====

Electronic
Submission
Line Number

Account Name

Debit

Credit

LOW RENT PROGRAM:

(1)

933	Utilities-gas	\$	16,220	
941	Ordinary maintenance and operation-labor		11,303	
961	Insurance premiums		26,778	
931	Water			\$ 21,466
932	Electricity			16,220
943	Ordinary maintenance and operation- contract costs			16,615
	To reclassify general ledger entries to the correct accounts.			

GRAYLING HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2006

GRAYLING HOUSING COMMISSION
CONTENTS
MARCH 31, 2006

	<u>Page</u>
Independent Auditors' Report on Communications With the Audit Committee/Board of Commissioners	1-2
Independent Auditors' Report on Management Advisory Comments	3
Management Advisory Comments	4
Adjusting Journal Entries	5

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Grayling Housing Commission

I have audited the financial statements of the Grayling Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated December 7, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There was one audit adjusting journal entry and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustment, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entry).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Samy E. Tardiff, CPA, PC

December 7, 2006

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Grayling Housing Commission

I have audited the financial statements of the Grayling Housing Commission ("Housing Commission") as of and for the year ended March 31, 2006, and have issued my report, thereon, dated December 7, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

December 7, 2006

GRAYLING HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

March 31, 2006

=====

Prior year comments and recommendations

I would like to commend management and the board for implementing and resolving all of the comments I made in the prior year letter.

Resident Council

Currently there is not a resident council at the Housing Commission. The Housing Commission receives \$25 per tenant as part of its operating subsidy to spend on tenant services, but there was not any expenditures in the general ledger. HUD established a procedure on how and on what these monies can be spent on.

I recommend the Housing Commission follow the HUD procedures in how to spend the \$25 per tenant subsidy.

Tenant Files

We selected at random six(6) Low Rent and seven(7) Housing Choice Voucher tenant files to thoroughly test. The results are as follows:

Low Rent Program

All 6 tenant files tested were missing the inspection report and the declarations of citizenship, 5 of the files had photo IDs missing, and 3 had copies of the social security cards missing. Also, of the tenant files tested, one(1) HUD-50058 form was missing, one(1) privacy act notice, and one(1) proper verification of income and expenses was either incorrect or missing the verification.

Housing Choice Voucher Program

All 7 tenant files tested were missing the declarations of citizenship. Three of the tenant files either had an incorrect calculation of rent or was missing the verification of income and expenses.

I recommend that the Housing Commission begin completing the Declaration of Citizenship forms for the Low Rent and Housing Choice Voucher programs immediately on all tenants. Also, the verification of income and expenses needs to improve for both the Low Rent and Housing Choice Voucher programs. The inspections were done in the Low Rent program, but there is either no documentation in the tenant files or wasn't on the HUD recommended UPCS form or similar form.

GRAYLING HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 March 31, 2006
 =====

Electronic
 Submission
Line Number

Account Name

Debit

Credit

LOW RENT PROGRAM

(1)

933	Utilities-gas	\$	16,220	
941	Ordinary maintenance and operation-labor		11,303	
961	Insurance premiums		26,778	
931	Water			\$ 21,466
932	Electricity			16,220
943	Ordinary maintenance and operation- contract costs			16,615
	To reclassify general ledger entries to the correct accounts.			